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Beyond Green : Assessing Environmental Cost Determinants

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Abstract: This study aims to evaluate the fundamental factors that impact the environmental costs borne by firms included in the ESG (Environmental, Social, and Governance) index. The factors that were taken into account and analyzed include the reputation of the company, the quality of the audits, and the size of the organization in relation to environmental costs. The data collection is entailed the examination of financial records and sustainability reports. The study's population comprised companies that were indexed based on (ESG) criteria for the period of 2018–2022. The data gathering process in this study yielded a total of 285 data points for analysis, obtained from 57 different companies. The study employed a quantitative methodology using ordinary least squares and included control variables and a fixed effect. The findings of this study suggest that reputation and firm size exert a substantial impact on environmental costs. Empirically, this result shows that the better the company's reputation and the bigger the company, the higher the environmental cost spent by that company. Thus, whichever public accounting firm handles the company, will not affect the amount of environmental costs spent.

Keyword: Corporate Reputation, Audit Quality, Firm Size and Environmental Costs.

INTRODUCTION

Environmental cost disclosure refers to a company's practice of revealing the expenses associated with environmental impact as part of their commitment to promoting sustainable economic developme (Du & Li, 2020; Eichholtz et al., 2019). Corporate focus on environmental and social factors is increasing due to the emphasis on sustainable economic development (Moedu et al., 2023; Nzekwe et al., 2021; Oshiole et al., 2020). Environmental costs refer to the financial burdens that a firm faces in order to prevent and address environmental issues that arise as a result of its activities (Iheduru & Chukwuma, 2019). The company's operating operations have a direct impact on the environment, which must be considered. In 2021, the European Union government allocated \in 119 billion (equivalent to

0.8% of GDP) in funds for environmental preservation, demonstrating its commitment to addressing environmental concerns.

Total general government expenditure on 'environmental protection', 2021 (% of GDP 1.6 1.4 12 1.0 0.8 0.6 0.4 0 2 0.0 Estonia Poland Finland EU.* Bulgaria Denmark Ireland Greece Cyprus Maita Austria Czechia Spain* Croatia Italy Latvia uxembourg Hungary therlands Slovenia euro area 19* uro area 20* Sermany* France* ithuania Portugal* Romania Slovakia Sweden Iceland Norway witzerland Waste management Waste water management Pollution abatement Protection of biodiversity and lands cape
 R&D Environmental protection
 Environmental protection n.e.c. * provisional eurostat Source: Eurostat (gov 10a exp) Figure 1 Total government public expenditure for environmental protection

Source : Eurostat (gov_10a_exp)

The Environmental Fund Management Agency of the Indonesian government has disbursed loans and grants of Rp 11.92 trillion to facilitate environmental and green energy projects around the country (Hesti, 2021). Norway has become the first nation to permit seabed mining. The government exercises great caution in granting permits to corporations interested in deep-sea mining, with the primary objective of preventing any adverse environmental impact. The year is 2024. Furthermore, it is imperative that the government and relevant companies prioritize addressing environmental concerns, such as pollution resulting from industrialization activities (Ding & Shahzad, 2022; Ellili, 2020). Industrialization has led to elevated consumption and pollution levels in China, consequently exerting a significant impact on the environment (Du & Li, 2020). The government is attempting to remove and issue environmental legislation that incentivizes corporations to enforce environmental norms (Jiang et al., 2021; Zhang et al., 2020). Unilever is a firm that actively incorporates its unique commercial responsibility towards the environment into its operations. In 2019, Greenpeace activists conducted a visit to the Unilever headquarters in the Netherlands with the aim of holding them responsible for the plastic waste generated by their goods. This issue is of particular concern due to its impact on the environment, particularly in the waters of the Philippines. (Luthfia Ayu Azanella, 2019) After a span of three years, Unilever emerged as the primary contributor to the contamination of rivers in Jakarta. The DKI Environmental Service has confirmed its compliance with the restrictions outlined in Act No. 18 of 2008 regarding rubbish management. Furthermore, the corporation bears the responsibility for the packaging trash it generates (Luthfia Ayu Azanella, 2019; Melki, 2022). Based on IQAir data, Jakarta has surpassed Baghdad and Iraq to become the most polluting large metropolis by (Widi, 2023). The current environmental pollution is quite concerning due to its potential to induce respiratory ailments. The government is implementing stringent measures against enterprises in Jakarta, particularly those that contravene environmental regulations, which serve as a catalyst for air pollution. The government has taken action to close down three stockpiling firms, PT Bahana Indokarya Global, PT Trada Trans Indonesia, and PT Trans Bara Energy, because of their potential involvement in environmental contamination (Syaiful Hakim, 2023). PT Raja Top Food engaged in unauthorized dumping of liquid waste into a well that feeds into the Cimancuri

River, resulting in other instances of environmental contamination (Azmi Syamsul, 2023). Both governments and enterprises need to recognize that long-term success requires more than just financial profitability. It is imperative for them to actively comply with environmental legislation and promote environmental consciousness. The stakeholders theory posits that a firm is motivated not just by its own interests but also by the interests of many stakeholders, such as shareholders, creditors, consumers, suppliers, governments, and notably the general public (de Souza Barbosa et al., 2023). According to this view, firms have a dual responsibility of both maximizing profits and protecting the environment. Environmentally conscious companies are both successful and rapidly expanding. According to research findings, 80% of organizations observe an increase in stock movements, and 88% demonstrate improved performance when they implement and consistently prioritize environmental preservation (Nabil Alfaruq, 2021). The company's reputation is strongly associated with its recognition of the significance of responsible environmental conservation (Ramli et al., 2020; Widiyanti & Lovett, 2021). Investors recognize that organizations that prioritize environmental expenses are highly committed to ensuring the long-term sustainability of their operations (Irhamna, 2021; Jeffrey et al., 2019). Companies that allocate resources specifically for environmental purposes tend to enhance their reputation and attract investment, which in turn has a significant influence on their long-term profitability (Zainab & Burhany, 2020). Both local and global investors prioritize environmental transparency to ensure long-term sustainability (Angir & Weli, 2024). CSR will aggressively prioritize environmental concerns and promote sustainable production (Fukuda & Ouchida, 2020). The company's reputation surpasses that of CSR (Jao et al., 2023). Citing the studies conducted by Tangngisalu et al., (2020) and (Kucharska, 2020), Demonstrate the existence of a substantial correlation between corporate social responsibility (CSR) and the reputation of a corporation. The presence of CSR practices significantly impacts the company's reputation (Jao et al., 2023). Corporate social responsibility (CSR) is a practice that contributes to environmental harm (Agustina et al., 2023). Corporate social responsibility (CSR) is included in the cost disclosure; hence, CSR can be considered equivalent to the environmental cost. Numerous studies have examined the correlation between environmental expenses and company standing. This research stands apart from past studies due to its examination of previously unexplored links based on the author's specific findings. In particular, it emphasizes the impact of a company's reputation on environmental costs.

Audit quality is crucial in the expanding global economy, as it is necessary for all organizations and companies to generate financial reports of exceptional quality. Highquality financial accounts that have undergone an audit are a vital asset for firms since they provide reliable information for making informed internal decisions. Furthermore, external stakeholders depend on audit reports to assess the company's viability. Audit quality is crucial for ensuring the long-term viability and continuity of a firm by enhancing its performance. Performance refers to the utilization of natural resources, assessment and observation, and strategic planning that incorporates effective audit performance to ensure high audit quality (Akbar & Mahdi, 2023; Flavyih et al., 2022; Saeed et al., 2022). Prior research has demonstrated that companies audited by the BIG 4 public accounting firm exhibit superior performance and environmental disclosure (Agyei-Mensah, 2019). This can be attributed to their substantial allocation of resources towards the audit process, including significant investments in natural resources, human resources, and technology. A study conducted Hammami & Hendijani Zadeh, (2020) and Moalla & Dammak, (2023) discovered a correlation between audit quality and ESG (environmental, social, and governance) factors, specifically focusing on the environment. The size of a firm is determined by its magnitude, or diminutiveness. A huge corporation typically possesses substantial assets, which serve as a

significant indicator of a small company's size. Companies with substantial assets leverage all available resources to optimize profitability. Corporate assets serve as a metric for assessing the size of a firm, and larger companies are expected to take responsibility for their environmental impact in line with the scale of their operations. Typically, larger companies face greater public expectations. Based on the findings of Kustina & Hasanah, (2020) and Nugraheni et al., (2021), the size of the company does not have any impact on the extent of CSR disclosure. The size of a corporation will not have an impact on its expenditures. Nevertheless, according to the studies conducted by Galvani Tampubolon et al., (2019) and Nurwati et al., (2021), as a firm grows in size, its obligation to address environmental and social factors increases.

H1: Company reputation has a positive and significant impact on environmental costs.

H2: Audit quality has a positive and significant impact on environmental costs.

H3: Firm size has a positive and significant impact on environmental costs.

METHOD

This paper used firms that are indexed on the ESG website for the period of 2018 to 2022. This paper used a purposeful sampling technique. Table 1 shows the number of samples used in this study. There are only 58 firms listed on the ESG website that report ESG information, and there is one company with incomplete data that we excluded from the sample. There are 57 unique firms in five years, resulting in 285 firm-year observations.

	Criteria	
1.	ESG Index Companies 2018-2022 In ESG website	58
2.	Companies which data is incomplete	(1)
3.	Total samples of the study	57
4.	Total Observation (5 years X 57)	285

Source : (Calculated by authors, 2024)

We measure the firm's reputation using a binary variable. If the company receives a corporate image award, we assign a value of 1, and if it does not, we assign a value of 0 (Mayliza & Maihidayah, 2022). An Indonesian firm that successfully upholds and cultivates its brand, demonstrates strong financial performance, and sustains its operations even in challenging circumstances during a specific timeframe receives the Corporate Image Award. Big4 public accounting firms assign a quality rating of 1 to audited companies, while non-Big4 public accounting firms assign a quality rating of 0 (Ogoun & Perelayefa, 2020). This study quantifies the company's size using the natural logarithm of the total axist, following the guidelines of Hasangapon et al., (2021), Mantik & Suroso, (2022), and Septiani et al., (2020). We determine the environmental cost variables in this study by calculating environmental cost indicators using the natural logarithmic formula. Table 2 shows the variable definition.

Table 2 Variables Definition

Variable	Dimensions	Disclousure	Disclousure	
		Indicators		
Environmental	Logarithm natural total	Total Environmental	Ration	
Costs	environmental cost of the	Cost = Logn (Total		
	company	Environmental Cost		
		tahun ke n)		
Company	Companies winning a	I=Acquiring corporate	Dummy	
Reputation	corporate image award are	image (Indonesia's Most		

	given a value of $=1$ and 0 if they do not win a Corporate	Admired Companies)			
	Image award	0=Did not receive a corporate image award (Indonesia's Most Admired Companies)			
Audit Quality	Companies Audited by Big 4 Public Accounting Firm are rated 1, Non Big Public Accounting Firm $4 = 0$	I= The Big Four 0= Non Big Four	Dummy		
Firm Size	Logarithm of total corporate assets	Total Assets= Logn (Total Assets tahun ke n)	Ratio		
Sales Growth	Growth of sales from previous year	Sales t-1 - Sales t)/Sales t-1	Ratio		

Source: (Calculated by author, 2024)

The data in this study was analyzed using ordinary least square. The equation used for testing hypothesis in this study is as follows:

$ECost = \alpha + \beta_1 CRe^{-1}$	(1)			
$ECost = \alpha + \beta_1 CRe$	(2)			
$ECost = \alpha + \beta_1 AQ +$	(3)			
$ECost = \alpha + \beta_1 AQ +$	$-\beta_2$ SGrowth+ β_3 Lev + e	(4)		
$ECost = \alpha + \beta_1 FSiz$	e+ e	(5)		
$ECost = \alpha + \beta_1 FSiz$	$e + \beta_2 SGrowth + \beta_3 Lev + e$	(6)		
Description :				
ECost	= Environmental Costs			
CRep	= Company Reputation			
AQ	= Audit Quality			
CSize	= Company Size			
SGrowth	= Sales Growth			
Lev	= Leverage			
α	= Constant			
$\beta 1\beta 2 \beta 3 = \text{Coefficient}$				
е	= error			

When we keep all independent variables (company reputation, audit quality, and company size) constant or zero, the environmental cost value remains at 585.843. The company's reputation, as measured by a dummy variable, has a regression coefficient of 738,642, indicating a positive and statistically significant relationship. Therefore, an increase in the business reputation variable leads to an improvement in the environmental cost variable. The regression analysis of the audit quality variable, measured with a dummy variable, shows a positive (positive and non-significant) regression coefficient of 9,702. This coefficient suggests that audit quality does not have a significant impact on environmental costs.

RESULTS AND DISCUSSION

Descriptive Analysis

Descriptive statistics are an important part of research that is used to describe the basic characteristics of the data to be used. A descriptive statistical summary of a data set, with or without analysis, gives data meaning and makes it understandable. We use descriptive statistics to simply convey information. One type of descriptive presentation is the minimum value, maximum value, mean, and standard deviation.

Table 3 shows 285 observations that reveal significant insights into the variables analyzed. The mean environmental cost is 14.08, with considerable variability (SD = 11.39), ranging from 0 to 53.28. The average firm size is 20.24 with moderate dispersion (SD = 4.79), ranging from 12.73 to 32.45. Sales growth shows a slight average decline of -1.10, with a wide range from -35.84 to 0.95 and a standard deviation of 5.13, indicating high variability. Leverage has a mean of 2.56 but displays substantial variability (SD = 8.86), with values ranging dramatically from -123.36 to 49.15. These findings suggest a variety of firm behaviors and characteristics in terms of environmental costs, size, sales growth, and leverage.

Panel A. Statis	stic Descripti	ve			
Variable	Ν	Minimum	Maximum	Mean	Std.Deviation
Environmental	285	0.00	53.28	14.08	11.39
Cost					
Firm Size	285	12.73	32.45	20.24	4.79
Sales Growth	285	-35.84	0.95	-1.10	5.13
Laverage	285	-123.36	49.15	2.56	8.86
		Source: (Calcu	lated by author, 202	24	

Table 3. Descriptive Statistical Results

Panel B. Frequencies					
Variable	Ν	Dummy	Frequency	Percentage	
REP	285	0 1	115 170	40.35 59.65	
AQ	285	0 1	81 204	28.42 71.58	

Source: (Calculated by author, 2024)

Table 3 Panel B explains the frequencies for dummy variables used in this study. Panel B shows that out of 285 samples, 170 firms are included as reputable firms, and 204 firms are audited by BIG 4.

Table 4. Determinants of Environmental Cost								
	(1)	(2)	(3)	(4)	(5)	(6)		
	Environmental Cost							
Constanta	8.56***	8.46**	14.43***	14.29***	5.39	5.17		
	(5.10)	(4.99)	(7.76)	(7.53)	(1.67)	(1.59)		
REP	7.572***	7.605***						
	(5.76)	(5.77)						
AQ			-1.133	-1.124				
-			(-0.75)	(-0.74)				
FSIZE			· · ·		0.403**	0.405^{**}		
					(2.89)	(2.89)		
SGROWTH		-0.139		-0.130		-0.130		
		(-1.08)		(-0.96)		(-0.97)		
LEV		-0.0133		0.00541		0.0216		
		(-0.18)		(0.07)		(0.28)		
Year FE	Yes	Yes	Yes	Yes	Yes	Yes		
Adj. R Square	0.09	0.09	-0.01	-0.01	0.02	0.02		
N	285	285	285	285	285	285		
		$\overline{\mathbf{C}}$. 1. (. 11	2024)				

Source: (Calculated by author, 2024)

t statistics in parentheses * p < 0.05, ** p < 0.01, *** p < 0.001Source: (Calculated by author, 2024)

Impact of a Company's Reputation on Environmental Costs

Models 1 and 2 on Table 4 show how company reputation influences environmental costs. Both models highlight the significant positive effect of a company's reputation on environmental costs. The adjusted R-squared values indicate that both models explain a modest portion of the variance in environmental cost, with 9% in both cases. The research succeeded in finding a link between a company's reputation and environmental costs. It demonstrates that the better a company's reputation, the more it will encourage it to be more environmentally responsible. A company's reputation or image is the belief that a person or organization holds about its valuation. A company with a good image is one that cares about the environment and sustainability. Allocating costs to the environment demonstrates this care. The company's allocation of environmental costs establishes the company's future worthiness in the eyes of investors and the public. The better a company's reputation, the more it cares about the environment and society, which will guarantee its sustainability. There is a positive correlation between the company's reputation and its level of concern for environmental and social issues, ensuring its sustainability.

Impact of Audit Quality on Environmental Costs

Model 3 and Model 4 from Table 4 introduce audit quality (AQUAL), which shows no significant relationship with environmental cost. The adjusted R-squared values for both models indicate a poor fit, explaining less variance than a simple mean model with adjusted R-squared values of -0.01. The second hypothesis was rejected. This study does not provide convincing evidence of the substantial impact of audit quality on the environmental cost of living in ESG-registered companies. Audits of quality and environmental costs are important elements of a company's sustainability and social responsibility, but they do not directly affect each other. Hammami & Hendijani Zadeh, (2020) found that audit quality has a significant influence on ESG disclosure. A qualified audit will encourage companies to disclose ESG more broadly and transparently. This study offers a more comprehensive understanding of the impact of audit quality on ESG. Specifically, the environmental aspects reveal that the quality of an audit does not influence the environmental costs incurred by a company.

Impact of Company Size on Environmental Costs

Model 5 focuses on the relationship between firm size and environmental costs, while Model 6 includes additional variables such as sales growth and leverage. Both models show a positive and significant effect on environmental costs. The adjusted R-squared values for both models indicate a modest fit, with only 2% of the variance in environmental cost explained by these models. Both models include year-fixed effects, controlling for yearspecific variations. The present study successfully ascertains the influence of firm size on environmental expenditure

CONCLUSION

This research explores the factors that influence environmental costs. The researchers concluded that a company's reputation as a first factor has a defining influence on environmental costs. A company that has a better and more well-known name is more likely to voluntarily disclose its environmental costs. The second factor, audit quality, indicates an insignificant impact on environmental costs. The company's size is a factor that has a

significant impact on environmental costs. There is a positive correlation between the size of the company and the level of environmental responsibility. This study is a valuable contribution to the field of research, especially in the area of environmental costs. Inserting environmental costs allows companies to not only pursue financial gains, but also to preserve the environment for a more promising and stable future. Environmental costs are also a way of ensuring that the company's operations take environmental factors into account.ESG companies, the focus of this study, have acknowledged their environmental concerns, yet they remain unlisted in the sustainable cost reports. That's why the government needs to follow up on this and encourage companies to take more care of the environment. Having a nominal record of environmental costs in the company's reporting can be proof that the company has taken care of the environment by allocating part of the corporate funds to the environment.Corporate reports recording environmental costs can serve as a crucial evaluation tool for investors, the public, and the government. We expect future research to use more samples to generalize the results to all companies. In further investigation, researchers can identify factors that affect environmental costs in the running of a company's operations.

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